

# AUDIT NEWSLETTER 2003

City of Tucson - Audit Division (520) 791-4681 Fax (520) 791-4344

December 2003

## **RIO NUEVO**

HELP GET STATE TAX DOLLARS TO REVITALIZE DOWNTOWN TUCSON.

The Rio Nuevo District includes downtown and extends along east Broadway to Park Place Mall. Businesses are to report their state sales tax for locations in the Rio Nuevo District using the "PAD" county code line on their Arizona State tax return. The increment of the current state tax over the base year comes back to Rio Nuevo. You can call the Audit Division (520-791-4681) to find out if your business is located in the Rio Nuevo District.

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Topics listed below are new items or problem areas found during audits. Please check with the State of Arizona for compliance to State law.

## **USE TAX**

The City of Tucson added a 2% Use Tax on July 1, 2003 that applies to purchases made by businesses and individuals from vendors outside Tucson that did not charge a city tax. Individuals who are not in business are exempt from the tax on purchases of \$1,000 or less per item on items bought outside the city. More information on the Use Tax can be obtained at <http://www.cityoftucson.org/finance/UseTax.html> or by calling the Audit Division.

## **RENTAL - REAL PROPERTY**

### **LICENSING FOR USE**

The Tucson tax rate on income from non-residential real property rental is two percent (2%). The State of Arizona does not tax this activity. If you receive a payment for allowing the owner of amusement machines, pay telephones, or vending machines to put their equipment on your property, the payments are considered licensing-for-use income. Licensing-for-use income is taxable under the rental of real property activity.

Individuals who rent property to "their corporation" are taxable under the rental activity. Any real property taxes paid to the landlord or for the landlord are considered part of taxable rental income. Rentals to all governmental entities (except Davis Monthan Air Force Base) are taxable. Rentals to all non-profits are taxable

except to non-profit primary healthcare facilities that provide the landlord with annual exemption letters from the Arizona Department of Revenue and the City of Tucson.

## **RETAIL**

### **SALES TO THE UNITED STATES GOVERNMENT - CREDIT CARDS**

Sales made to the United States Government are subject to Tucson's tax. Because the tax is on the business and not on the government, the business is liable for the tax on sales to the U.S. or any government. The governments generally pay the passed on tax (cost). The City of Tucson exempts 50% of the sales to the U.S. Government. Sales directly to the U.S. Government are not taxable when made by a manufacturer, modifier, assembler, or repairer of a product. Sales to or on Davis Monthan Air Force Base are exempt from the Tucson tax.

Agencies of the U.S. Government have started using credit cards issued by a variety of card-issuing banks under a program called GSA SmartPay. There are two types of accounts under this program. Type one is billed directly to the federal government (centrally billed) and the other is billed directly to the employee/ cardholder. These accounts can be distinguished by their account numbering system.

Cards that are always centrally billed can be identified by two four-digit prefixes, 8699 or 5568. A second set of prefixes is used for those accounts which are both individually or centrally billed. The 6<sup>th</sup> digit in the account number is the determining factor. The prefixes are 4486, 4716, and 5568. Sales charged to account numbers with 0, 6, 7, 8, 9, as the 6<sup>th</sup> digit are centrally billed to the federal government. Sales charged to accounts with 1, 2, 3, or 4, are individually billed to the cardholder.

Sales charged to cards that are centrally billed by the federal government are considered sales to the U.S. Government and, therefore, subject to the tax exemptions and partial exemptions noted in the first paragraph of this section.

Sales charged to cards that are individually billed to the cardholder are not sales made directly to the federal government. Therefore, these are subject to the Tucson business privilege tax.

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## **SALES FOR RESALES**

Sales for resale are sales of items to a person who is in the business of re-selling or renting the items to others, and is properly licensed to do so. Sales for resale are exempt from tax. For example, sales of materials that a contractor incorporates into a job are exempt from the tax. However, tools and consumables sold to a contractor are taxable because they are being used and not resold by the contractor.

## **CONTRACTING**

### **ANNEXATION EXEMPTION**

The construction contracting annexation exemption was eliminated beginning with annexations occurring on July 2, 2001. Therefore, income from projects in newly annexed areas is taxable immediately.

### **SPECULATIVE BUILDING**

If you improve real property and sell it within 24 months of completion, you may be liable for tax as a speculative builder. The City of Tucson taxes speculative builders on the selling price of the improved real property less the original purchase price of the land and a standard 35% exemption. You can call the Audit Division at 791-4681 for specific deductions relative to speculative building.

### **EXEMPTION CERTIFICATES**

The City of Tucson will accept the Arizona Department of Revenue Exemption Certificates (Form 5000) for exempt sales for resale if the form is completely filled out and signed by the purchaser. The city business license number can be added to the state exemption certificate form if it is available from the purchaser. It is recommended that the exemption certificates be renewed annually to verify the current exempt status of a business's customers.

The city will also accept the Arizona Department of Revenue Prime Contractor Certificate (Form 5005) for contracting jobs done for a prime contractor. The Form 5005 should be filled out completely, including the prime contractor's name, state business license number, and the city license number if the job is located in the city limits. The job location should also be listed on the form.

## **OTHER ISSUES**

City of Tucson tax is a Business Privilege Tax. The tax is the responsibility of the business. The business passes the tax onto its customers. Generally, tax is collected based on the business location on all retail activities. If a county resident makes a purchase from an in-city business, the Tucson tax will apply. On contracting, telecommunications, and utility activities, the tax is

based on the location of the customer (job). For other activities, see the specific Tucson Code Section.

## **DO YOU HAVE TAX QUESTIONS?**

If you have tax questions, please call 791-4681, Monday through Friday from 8 a.m. until 5 p.m. Because the tax collector is not bound by oral advice, you may want to receive a written response to your question. To get a written response to your questions regarding unusual transactions, please send your **detailed** explanation of the transaction to:

Revenue Administrator  
City of Tucson  
PO Box 27210  
Tucson, AZ 85726-7210

**WEB PAGE:** [www.cityoftucson.org](http://www.cityoftucson.org)

**Or** [www.ci.tucson.az.us](http://www.ci.tucson.az.us)

Either selection will get you to the City of Tucson's home page. Explore the many interesting and informative pages for departments and other items. You can access the **Business Privilege (Sales) Tax Code** from at least two city departments, Finance and City Clerk's Office. From the home page, access "Departments" and "click" on Finance Department ([www.ci.tucson.az.us/finance/](http://www.ci.tucson.az.us/finance/)). You will also find the Occupational License Tax Code Sections, Tax Information Brochures, Newsletters, Business Privilege Tax Return Forms, 17 Step-Business License Process, and other information and guides.

## **TAX SEMINARS**

Seminars with emphasis towards licensing and reporting requirements are given on the dates and at the locations listed below. ADOR will also be speaking. Questions are welcome.

9:10 AM - 12:10 PM	9:00 AM - 12:00 PM
<b>Wilmot Library</b>	<b>Main Library</b>
<u>530 North Wilmot Road</u>	<u>101 North Stone Avenue</u>
January 22, 2004	March 11, 2004
May 13, 2004	July 8, 2004
September TBD, 2004	November 18, 2004
TBD = To Be Determined	

These presentations are free. Please call us at 791-4681 to register. We will ask for your name and how many will be attending (needed for seating and material planning).